

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

FILED

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H. STUART CUNNINGHAM, CLERK  
UNITED STATES DISTRICT COURT

THE MAGNAVOX COMPANY, a )  
Corporation, and SANDERS )  
ASSOCIATES, INC., a )  
Corporation, )

Plaintiffs, )

v. )

APF ELECTRONICS, INC., et al., )

Defendants. )

Consolidated Civil  
Action Nos.

77 C 3159

78 C 4951

78 C 5041

Judge John Powers Crowley

MEMORANDUM OF PLAINTIFFS IN OPPOSITION TO  
MOTION BY DEFENDANTS BALLY AND MIDWAY FOR  
SUMMARY JUDGMENT ON THEIR SECOND COUNTER-  
CLAIM FOR BREACH OF CONTRACT

DOCKETED  
MAR 16 1981

This memorandum is in opposition to the motion of defendants Bally Manufacturing Corporation (Bally) and Midway Mfg. Co. (Midway) for summary judgment in their favor on their second counterclaim. Supporting this memorandum are the accompanying affidavits of Robert T. Mayer (Exhibit 1) and James T. Williams (Exhibit 2) and additional attached Exhibits 3 through 21.

As will be shown hereinafter, said defendants' motion for summary judgment should be denied for the dual reasons that (1) the motion raises a genuine issue of material fact as to whether or not plaintiff The Magnavox Company (Magnavox) has in good faith fully performed its obligations under its existing sublicense agreement with Bally/Midway

(Rule 56(c) F.R.C.P.); and (2) defendants are not entitled to a judgment as a matter of law because Magnavox had no duty to disclose the terms of the sublicenses for consumer games.

#### FACTUAL BACKGROUND

On April 15, 1974, plaintiff Magnavox filed a complaint against Bally and others in this Court (that action being entitled The Magnavox Company v. Bally Manufacturing Corporation, et al., Civil Action No. 74 C 1030), which complaint was subsequently amended to add Sanders as a party plaintiff and Midway as a party defendant. The complaint in that action alleged, inter alia, infringement by said defendants of United States patent No. 3,659,284 (Ex. 2, ¶2).

On August 5, 1975, said patent No. 3,659,284 was reissued as United States Letters Patent Re. 28,507 to Sanders, and since that date Sanders has been and still is the owner of said reissue patent. By written agreement entered into between Sanders and Magnavox, effective January 27, 1972, Magnavox has been and still is the exclusive licensee under said patents 3,659,284 and Re. 28,507; Magnavox has the right to grant sublicenses under those patents (Ex. 2, ¶3).

On May 13, 1976 (effective May 1, 1976), plaintiffs and Midway/Bally entered into an agreement to settle said Civil Action No. 74 C 1030. Pursuant to said agreement, Civil Action No. 74 C 1030 was dismissed as to Bally, and judgment was entered against Midway holding said patent No. 3,659,284 and its reissue Re. 28,507 to be good and valid in law and to have been infringed by Midway. As a part of that agreement, Midway entered into a royalty-bearing

sublicense agreement under patent Re. 28,507 which has permitted it to manufacture, use and sell coin-operated television games. This sublicense agreement is still in full force and effect and is the agreement which is the subject of defendants' second counterclaim for breach of contract and their motion for summary judgment\* (Ex. 2, ¶3).

Sublicenses under the patent in suit are commonly classified as relating to coin-operated television games intended for use in amusement arcades and the like and/or consumer television games for the consumer market (i.e., home television games). Consumer market or home television games are commonly sub-classified as "dedicated" games or "cartridge-type" games. Dedicated games are so-called because of their built-in electronic circuitry which permits play of a limited number of games originally designed into that circuitry. Cartridge-type games involve the use of removable and exchangeable cartridges, each of which are programmed to permit play of one or several games, and the total number of games playable is dependent upon the total number of cartridges available (Ex. 1, ¶4). The distinction between dedicated and cartridge-type consumer games is important because, as is detailed hereafter, Magnavox has been and is willing to include in its sublicense agreements provisions which have the effect of substantially reducing the royalties payable on cartridge-type games from that which would be payable without such provisions.

At the time of the settlement of the prior litigation (74 C 1030), Bally and Midway had made and sold coin-operated television games only (Ex. B, ¶6). Hence, the sublicense to

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\* Certain pages of this sublicense agreement are attached as Exhibit C to defendants' memorandum. Additional pertinent pages of the same agreement are included in Exhibit 3 attached hereto. Exhibits cited herein by letter or number refer to exhibits attached to defendants' memorandum or this memorandum, respectively.

Midway/Bally included as licensed products only such coin-operated games and expressly excluded "consumer or home" television games (Ex. 3, Art. I, ¶1.01(b)). Other provisions of the sublicense are also pertinent here. Article XIII, par. 13.01 provides that the agreement shall be governed by Indiana law. Article XV provides that if licensor (Magnavox) should grant a license to any other manufacturer of coin-operated games "at royalties lower than that provided for" in the sublicense to Midway/Bally, Magnavox will promptly notify Midway/Bally "of the grant of such license and the terms thereof" and Midway/Bally shall have the option to enter into a similar license. Article 17, par. 17.03 sets forth the option which is the alleged basis for defendants' second counterclaim and motion for summary judgment.

Paragraph 17.03 extends to Midway/Bally an option for a nonexclusive sublicense under the patent in suit and others "for the manufacture, use, and sale in the United States of video games intended for the consumer market, such sublicense to be on terms as favorable as those contained in any sublicense \*\*\* to any other party for video games intended for the consumer market. If there is no such sublicense to any other party, then the sublicense to LICENSEE shall be on reasonable terms." Unlike paragraph 15.01, paragraph 17.03 does not express any requirement that licensor notify licensee of the grant of any such other license or the terms thereof. Where no such provision is expressed, it should not be implied, particularly where the provision is found elsewhere in the same agreement.

As further background, it should be noted that Magnavox has entered into more than 50 sublicenses, including foreign licenses, under the patent in suit. Seven of those

sublicensees have been granted the right to manufacture television games in the United States. Those United States sublicensees and the dates of execution of their sublicense agreements are (Ex. 1, ¶3):

<u>Licensee</u>	<u>Date</u>
Centronics Data Computer Corp.	August 22, 1975
Coleco Industries, Inc.	May 10, 1976
Midway Mfg. Co. (and Bally Manufacturing Corp.) (Ex. 3)	May 13, 1976
Atari, Inc.	June 8, 1976
Tandy Corporation	August 25, 1977
Allied Leisure Industries, Inc.	October 18, 1977
Fairchild Camera & Instrument Corporation	April 30, 1980

MAGNAVOX IN GOOD FAITH HAS FULLY  
PERFORMED ITS CONTRACT OBLIGATIONS

Throughout their memorandum, defendants challenge the good faith of Magnavox in performing its obligations under the sublicense contract with them. Defendants claim, for example, that Magnavox has thwarted defendants in their efforts to evaluate and exercise the option provided for in Article 17.03 (Mem. p. 7) and that Magnavox has failed to negotiate with them in good faith (p. 13). The record shows that such contentions are completely unfounded, and that Magnavox has always acted in good faith in its contractual relations with Midway/Bally.

When the Midway/Bally sublicense (Ex. 3) was executed on May 13, 1976 (effective May 1, 1976) for coin-operated television games, only one other United States

manufacturer, Centronics, had been licensed for such games (Ex. 1 ¶¶3, 5). The Midway/Bally license was actually more favorable than the Centronics license since the royalties provided for in the Midway/Bally license were lower than those provided for in the Centronics agreement (Ex. 1, ¶6). Midway/Bally thus had a better deal from the very beginning of their contractual relationship with Magnavox.

Shortly after the effective date of the agreement with Midway/Bally, the sublicense agreements with Coleco and Atari were executed on May 10 and June 8, 1976, respectively (Ex. 1, ¶3). The Coleco agreement granted a license for the consumer or home television game market as distinguished from the coin-operated game market, but the license did not contain any language to distinguish cartridge-type games from dedicated games for the purpose of determining the royalties payable by the licensee (Ex. 1, ¶7). The Atari agreement granted a license for both coin-operated games and consumer games in consideration for a stated lump sum payment (payable in installments) as well as a cross-license from Atari (Ex. 1, ¶8). Since the Atari agreement was, in effect, a paid-up license, there was no occasion for it to distinguish between cartridge-type and dedicated games for the purpose of determining royalties.

In late June, 1976, James T. Williams, one of Magnavox's counsel, was informed by A. Sidney Katz, one of defendants' counsel, that Midway/Bally were giving some consideration to the consumer or home television game market. Mr. Katz asserted that defendants were entitled to see the terms of the Atari agreement (Ex. 2, ¶5). This was reasserted in Mr. Katz's letter to Mr. Williams dated July 23, 1976 (Ex. 4). Mr. Williams advised Mr. Katz by telephone on

July 28, 1976 that Magnavox was considering his July 23 letter (Ex. 2, ¶1). On August 4, 1976 Theodore W. Anderson, another of Magnavox's counsel, conferred by telephone with Mr. Katz and told him that the Atari agreement was no more favorable than the Midway/Bally agreement; that Midway/Bally had no right to see the Atari agreement; that despite this, Magnavox was considering a plan that would allow an attorneys'-eyes-only disclosure; and that under this plan, after the attorneys had viewed the Atari agreement, if they should still think it necessary, Magnavox and Midway/Bally could then negotiate with respect to further disclosure of that agreement to Midway/Bally (Ex. 2, ¶6).

On August 12, 1976, Mr. Anderson wrote (Ex. 5) Donald L. Welsh, another of defendants' counsel, to advise him of Magnavox' position that it had no duty under Article 15 of the Midway/Bally agreement to disclose the details of the Atari agreement. At the same time, Mr. Anderson formally extended the attorneys'-eyes-only disclosure offer above referred to. By letter dated September 10, 1976 (Ex. 6), Mr. Welsh accepted Mr. Anderson's attorneys'-eyes-only disclosure offer, expressly reserving the right to seek further information concerning the Atari agreement. This confidential disclosure arrangement having been made, Mr. Anderson on September 13, 1976 sent Mr. Welsh the pertinent Atari documents requested by him (Ex. 7).

Almost five months elapse at this point without any further word from Bally/Midway or its counsel!

On February 3, 1977, Mr. Welsh telephoned Mr. Williams to request the terms of any sublicenses granted by Magnavox for home television games, specifically requesting the terms of Coleco's and Centronics' sublicenses. Mr.

Welsh stated he would accept them on a confidential basis which would include personnel of Midway/Bally (Ex. 2, ¶7). By letter dated February 9, 1977 (Ex. 8), Mr. Welsh confirmed this telephone call and also requested the privilege of disclosing the terms of the existing sublicenses for home television games to Midway/Bally management personnel on a confidential basis. He asked for a release from the attorneys'-eyes-only disclosure understanding with respect to the terms of the Atari agreement, the details of which he wanted to disclose to his clients Midway/Bally.

On February 14, 1977, Mr. Williams wrote Mr. Welsh (Ex. 9) authorizing disclosure, on a confidential basis, of the terms of the existing sublicenses for home television games to those directors and employees of Midway/Bally necessary to exercise the option provided for in Article 17.03 of the Midway/Bally agreement. Mr. Williams stated that if Mr. Welsh would accept those terms, he would be released from the previous attorneys'-eyes only understanding concerning the details of the Atari agreement. By telephone on February 15, 1977, Mr. Welsh agreed to the terms set forth in Mr. Williams' letter of February 14, 1977. Mr. Welsh also inquired as to whom at Magnavox he should contact concerning a sublicense for Midway/Bally for home television games (Ex. 2, ¶8). This broadened confidential disclosure arrangement having been agreed to, Mr. Williams on February 17, 1977 (Ex. 10) sent Mr. Welsh a copy of the Coleco sublicense. The Centronics agreement was not forwarded because it extended only to coin-operated games (Ex. 1, ¶5); it was also executed prior to the Midway/Bally sublicense (Ex. 1, ¶3).

On February 28, 1977, Mr. William J. Streeter, a Magnavox official, sent Mr. Welsh a proposed sublicense

agreement for manufacturing rights abroad for home television games; but the proposed sublicense was directed to dedicated consumer games and included no specific provision for cartridge-type home television games (Ex. 2, ¶9). On April 5, 1977, Mr. Katz wrote Thomas Briody (Mr. Streeter's superior at Magnavox) requesting Magnavox's position with respect to the sublicensing of cartridge-type home television games (Ex. 11). Mr. Briody replied to Mr. Katz on May 10, 1977 (Ex. 12).

On August 5, 1977, Mr. Streeter wrote to Magnavox's licensees under the patent in suit to advise them, inter alia, that final judgment had been entered in the Chicago lawsuit (74 C 1030) in which Midway/Bally had originally been defendants, to the effect that the patent in suit had been held valid and infringed by other defendants. That communication included a list of the then current licensees, including foreign licensees (Ex. 2, ¶10; Ex. 13). On September 1, 1977, Mr. Katz, on behalf of Midway, wrote Mr. Streeter of Magnavox thanking him for his August 5th letter providing information to licensees and requested that he be sent a copy of the final judgment in Civil Action 74 C 1030 (Ex. 14). This was done (Ex. 2, ¶11).

As of the end of August 1977, no communication had been received from Midway/Bally or its counsel with respect to the Atari or Coleco sublicenses which had been confidentially disclosed to them many months before -- presumably for the purpose of evaluating their option under Article 17.03 (Ex. 2, ¶12)!

On August 25, 1977, Magnavox entered into its sublicense agreement with Tandy (Ex. 1, ¶3). Like the early Coleco agreement, the Tandy agreement granted a license for

the consumer or home television market, but the agreement did not contain language to distinguish cartridge-type games from dedicated games for the purpose of determining royalties payable by the licensee.

On August 30, 1977, Mr. Streeter wrote Mr. Welsh to advise him that Midway was in default in the reporting and paying of royalties due under its existing coin-operated game sublicense. Mr. Streeter also noted that Midway/Bally had exhibited a consumer or home television game at the Consumer Electronics Show the previous June (Ex. 15).

On October 18, 1977, Magnavox entered into its sublicense agreement with Allied Leisure (Ex. 1, ¶3). That agreement granted a sublicense for both coin-operated games and consumer market games, but it also contained no language to distinguish cartridge-type games from dedicated games for the purpose of determining royalties payable by the licensee (Ex. 1, ¶9).

As of early February, 1978, Magnavox had still received no communication from defendants with respect to the Atari and Coleco sublicenses, both of which sublicenses had been disclosed to them in confidence approximately a year earlier for their purported consideration and evaluation of the option provided for in Article 17.03! (Ex. 2; ¶12.)

On February 14, 1978, Mr. Katz wrote Mr. Williams requesting copies of the Tandy and Allied Leisure sublicenses (Ex. 16). Responding to this letter on March 15, 1978 (Ex. 17), Robert T. Mayer, then Assistant Licensing Counsel for Magnavox, sent Mr. Katz a draft of a proposed Midway/Bally sublicense agreement (Ex. D) for consumer market or home

television games. That proposed agreement was on terms as favorable to Midway/Bally as those contained in any sublicense then granted for the manufacture of consumer games in the United States as Mr. Mayer explicitly informed Mr. Katz in his March 15, 1978 letter to Katz.

As of that date (March 15, 1978), the only consumer television games which Bally and Midway were involved with were of the cartridge type. The agreement Magnavox proposed to Midway/Bally included provisions which specifically dealt with cartridge-type television games and called for the payment of substantially lesser royalties on account of the manufacture of cartridge-type games than would have been the case without such language. Moreover, as of that date, no party had yet entered into a sublicense agreement for the manufacture of consumer games in the United States which contained any language distinguishing dedicated games and cartridge-type games for purposes of determining royalties. Thus the Magnavox proposal was substantially more favorable to Midway/Bally than the terms of any of the then existing sublicenses permitting manufacture of consumer games in the United States. To this date, no more favorable terms have been granted in any sublicense to any United States manufacturer (Ex. 1, ¶10).

The agreements with Atari and Coleco, which were submitted to defendants and/or their counsel, on a confidential disclosure basis, in September, 1976 and February, 1977, respectively, were sufficient to enable defendants to conclude that Magnavox's proposal of March 15, 1978 was more advantageous to defendants for the manufacture of cartridge-type games for the consumer market (Ex. 1, ¶12).

At a meeting on June 12, 1978, attended by Messrs. Williams, Mayer and Streeter on behalf of Magnavox, and Messrs.

Welsh, Katz and Caan (a Bally house attorney) on behalf of defendants, Mr. Mayer advised defendants that no sublicense agreement had yet been entered into for cartridge-type games, but that similar agreements had been proposed to Fairchild (a previous defendant in these actions which has now settled out) for the United States and some European manufacturers (Ex. 2, ¶13).

At a subsequent meeting in Chicago on September 28, 1978, attended by Robert T. Mayer, Messrs. Anderson and Williams, plaintiffs' trial counsel, and Messrs. Welsh and Katz, defendants' trial counsel, Mr. Mayer told defendants' counsel that should an agreement in principal be reached with defendants on a sublicense for the consumer market, Magnavox would "demonstrate" to Bally that no one had obtained from Magnavox a sublicense for the manufacture of consumer games in the United States on terms any more favorable than the agreement reached with Midway/Bally (Ex. 1, ¶13; Ex. 2, ¶14).

On December 13, 1978, no further agreement of any type having been reached with Midway/Bally, plaintiffs brought this action against Midway/Bally for patent infringement based on Midway/Bally's manufacture, use and sale in the United States of consumer television games which are not covered by their existing sublicense agreement with plaintiffs.

On March 20, 1979 (Ex. 18) Mr. Williams wrote Mr. Welsh, in response to a previous request, to advise him of the names of all licensees who, as of that time, had entered into a sublicense agreement with Magnavox for consumer market, cartridge-type television games. The concluding paragraph of that letter stated:

"As you are certainly aware and as we also discussed last Friday, just after this lawsuit was filed in December, we offered to supply you with copies of all the license agreements under the Magnavox/Sanders video game patents upon entry of an appropriate protective order. This was proposed as a preliminary step to show you and your client that Magnavox was indeed complying with the option provision. You agreed to this procedure but Sid Katz wanted to give the matter further consideration. We have never heard from you further on this, but the offer is still open."

In a reply dated May 14, 1979 (Ex. 19) Mr. Welsh registered his objection to any protective order providing for disclosure restricted to attorneys'-eyes-only. On May 25, 1979, Mr. Williams again wrote Mr. Welsh (Ex. 20) stating that the disclosure of other sublicense agreements should be limited to outside counsel because of the sensitive nature of the material. Mr. Williams also stated that after outside counsel had seen the sublicenses, the parties could consider broader disclosure of the information.

On April 30, 1980, Magnavox entered into a sublicense agreement with Fairchild which expressly licensed consumer market, cartridge-type television games (Ex. 1, ¶¶3, 14).

On June 11, 1980, Mr. Williams wrote Mr. Katz (Ex. 21) proposing an enclosed protective order relating to documents arising from the Fairchild litigation. There were three such documents: a sublicense for cartridge-type games, a settlement agreement; and a side letter. The proposed protective order called for disclosure of all three documents to defendants' outside counsel, but the sublicense could be

disclosed to Bally's management. At a meeting on December 30, 1980 between counsel for the parties hereto, the protective order relating to the Fairchild documents was further discussed but no agreement was reached and no protective order has yet been entered in this case (Ex. 2, ¶15).

Magnavox considers all of its sublicense agreements to be confidential because they contain highly sensitive and confidential commercial information. None of the sublicense agreements which have been withheld from defendants would have assisted them in evaluating their option. Most of those withheld sublicenses are with foreign licensees and grant no manufacturing rights in this country. They are thus irrelevant to an evaluation of defendants' option, which relates only to manufacturing rights in the United States. Neither of the United States sublicenses for the consumer market (i.e., Tandy and Allied Leisure) which Bally refused to accept under the proffered protective order and which were entered into before this lawsuit was filed, distinguish between dedicated games and cartridge-type games and hence these sublicenses are inherently disadvantageous for manufacturers of cartridge-type games such as Bally/Midway. Only the Fairchild sublicense contains such advantageous language for manufacture in the United States, and that agreement was not executed until long after this suit was brought and after the Bally/Midway counterclaim was filed. The Fairchild sublicense agreement is no more favorable than the proposed sublicense submitted to defendants on March 15, 1978 (Ex. 1, ¶14).

THE PRESENCE OF A GENUINE ISSUE OF MATERIAL  
FACT REQUIRES DENIAL OF DEFENDANTS' MOTION

In view of the foregoing, it is manifest that Magnavox has at all times acted in good faith in its negotiations with defendants and that in no way has Magnavox thwarted, or attempted to thwart, defendants' efforts to evaluate or exercise the option granted to them in Article 17.03 of their existing sublicense agreement. In no way can it be said that Magnavox's conduct has constituted a breach of that agreement. Defendants' contentions to the contrary would appear to serve no purpose other than to raise a genuine issue of material fact as to whether or not Magnavox has, in good faith, performed its contract obligations with defendants.

The very cases from which defendants quote in their memorandum show that the only issue here is one of good faith. "A licensor owes the duty to act in utmost good faith...." Ruckstell Sales & Mfg. Co. v. Perfecto Gear Differential Co., 28 F.2d 407 (N.D. Cal. 1928). "Sears was under an obligation to deal in good faith with the vendee...." Whitney v. Halibut, Inc., 202 A.2d 629 (Md. Ct. Apps. 1964). "Plaintiff did not negotiate in good faith as it was obligated to do." Henry G. Meigs, Inc. v. Empire Petroleum Co., 273 F.2d 424 (7th Cir. 1960). (Emphasis ours in all quotes.)

As stated in Black v. Brown et al., 513 F.2d 652, at 654, fn.6 (7 Cir. 1975) "the determination of good faith is a factual matter, that should be handled by the trier of fact on something other than a motion to dismiss." See also Askew v. Bloemker, 548 F.2d 673 (7 Cir. 1976).

Accordingly, defendants' motion for summary judgment should be denied for this reason alone.

BALLY AND MIDWAY ARE NOT ENTITLED  
TO SUMMARY JUDGMENT AS A MATTER OF LAW

If defendants are to prevail on their motion, they must be entitled to a judgment as a matter of law (Fed. R. Civ. P. 56(c)). They base their motion on an alleged duty of Magnavox to disclose to them the terms of all existing consumer market sublicenses. According to defendants, that Magnavox did not disclose all such terms constitutes a breach of the Midway/Bally sublicense. Yet, under the plain language of paragraph 17.03 of that sublicense, Magnavox has no duty to disclose the terms of any consumer market sublicense. Since Magnavox has no such duty, defendants are clearly not entitled to a judgment as a matter of law.

Plaintiffs agree that the rules of general contract law apply here (Mem. p. 9). More specifically, Indiana's general contract law applies because the parties so agreed (Ex. 3, ¶13.01). Under that law, the principal objective in construing a contract is to determine the intent of the parties as expressed in the language used. In determining this intent, the court should consider the entire instrument; not focus on an isolated clause. Piskorowski v. Shell Oil Co., 75 Ind. Dec. 393, 403 N.E. 2d 838 (3d Dist. 1980).

When the Midway/Bally sublicense is considered in its entirety, it is clear that when the parties intended that Magnavox should disclose the terms of other sublicenses, they expressly stated that intent. Paragraph 15.01 of the defendants' sublicense extends to them the benefit of the more favorable royalty terms of any other coin-operated market sublicense granted by Magnavox. That paragraph also expressly obligates Magnavox to notify defendants of the

grant of any other such sublicense "and the terms thereof". Paragraph 17.03, the only paragraph that applies to sublicenses for consumer games, extends to defendants an option to acquire a consumer market sublicense on reasonable terms or "on terms as favorable as those contained in any sublicense" to another party for the consumer market. Paragraph 17.03, however, does not expressly obligate Magnavox to disclose those terms. Contrasting paragraphs 15.01 and 17.03, it is clear that the parties did not intend that Magnavox disclose the terms of any other sublicense for consumer games.

The case of Plastic Contact Lens Co. v. Frontier of the Northeast, Inc., 441 F.2d 67, 71 (2 Cir. 1971), cert. denied, 404 U.S. 881 (1971), is particularly in point. The Court there held that where express words modify a provision at one point in an agreement, but no such express words modify a similar provision at a second point in that agreement, then that second provision should not be read to include those express words. Thus, because paragraph 15.01 contains express words obligating Magnavox to disclose the terms of other sublicenses for the coin-operated market, but paragraph 17.03 does not contain express words obligating Magnavox to disclose the terms of sublicenses for the consumer market, then paragraph 17.03 should not be read to include an obligation to disclose.

Defendants' suggestion (Mem. p. 8) that the Court here imply such a duty of Magnavox is untenable.

First, as shown above, the parties clearly did not intend that Magnavox accept such a duty. Midway obviously appreciated the problem of evaluating any offered royalty terms because it insisted that Magnavox disclose such terms

for coin-operated sublicenses in paragraph 15.01. However, at the time Midway entered the agreement, Midway must have decided it could independently evaluate any royalty terms offered in a consumer market sublicense because it did not insist in paragraph 17.03 that Magnavox disclose such terms.

Secondly, under Indiana law, contracting parties are presumed to have the right to select the terms of their agreements which they deem appropriate to set forth their intent. No rule of construction justifies the imposition upon one party to a contract of an obligation not assumed by its terms. Prudential Insurance Company of America v. Lancaster, 139 Ind. App. 292, 219 N.E. 2d 607 (1st Div. 1966); Indiana Gas and Water Co. v. Williams, 132 Ind. App. 8, 175 N.E. 2d 31 (2d Div. 1961).

Thirdly, no provision of a contract should be treated as surplusage if a reasonable meaning can be assigned consistent with other parts of the contract. Oard v. Rechter, 163 Ind. App. 166, 322 N.E. 2d 392 (1st Dist. 1975). If a duty to disclose the terms of all sublicenses for consumer games were implied in paragraph 17.03, the same duty to disclose the terms of sublicenses for coin-operated games would also have to be implied in paragraph 15.01. Yet if a duty to disclose were implied in paragraph 15.01, the express promise to disclose in that paragraph would be mere surplusage. Such a construction is contrary to Indiana law.

Additionally, the unconditional duty to disclose which Midway/Bally would impose on Magnavox is simply a much greater obligation than was required to ensure that Midway/Bally receives the full benefit of the option it bargained for. Numerous other alternatives existed. The two step disclosure procedure which was followed with the Atari and Coleco

agreements proved workable. There disclosure was initially to outside counsel only and then, if necessary, to selected Midway/Bally personnel on a confidential basis. Any necessary disclosure could have been made after an agreement in principle was reached between the parties but prior to execution. Magnavox specifically offered such disclosure to Midway/Bally of the only two then undisclosed U.S. consumer sublicenses at the September 28, 1978 meeting between counsel for the parties. As a third alternative, a sublicense agreement could have been fully executed but including appropriate provision for the necessary disclosure after execution and modification if Midway/Bally did not, in fact, get the arrangement to which they were entitled under the option. The presence of other feasible alternatives together with the express absence of language explicitly requiring disclosure, clearly shows that the obligation Midway/Bally seek to place on Magnavox simply did not exist.

Defendants' reliance on Shatterproof Glass Corp. v. Libbey-Owens-Ford Co., 482 F.2d 317 (6 Cir. 1973) is misplaced. In that case the court stated, "On remand, therefore, LOF [the licensor] will have the burden of proving that Ford [another licensee] was not given a license to use any of the patents licensed to Shatterproof under any more favorable terms or royalty rates." 482 F.2d at 324. The court was merely assigning the burden of proof according to the general principle that a litigant should not have the burden of establishing facts "peculiarly within the knowledge of his adversary." (id). The court was not construing a party's obligation under a contract. That obligation is not determined by a party's access to facts, but by the intention of the parties as expressed in the language of the contract. The inappropriateness of Shatterproof is further conclusively shown by the fact that the "favored nations" clause at issue

there contained an express promise by the licensor to "make available to counsel for LICENSEE, a complete copy of such agreement for inspection," 482 F.2d at 318. Thus, Shatterproof did not even consider any contract obligation of a patent licensor to make available the terms of other sublicenses.

Plaintiffs have shown that under the applicable law paragraph 17.03 imposes no duty, express or implied, on Magnavox to disclose to Midway/Bally the terms of sublicenses for consumer games. There being no such duty, they are not entitled to a judgment as a matter of law.

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Defendants also advance the untenable contention (Mem. p. 14) that because they have allegedly now ceased infringing the patent in suit, plaintiffs are "not entitled to any recovery" - apparently not even damages under the complaint for defendants' past infringement. Defendants cite no authority whatever in support of this position. Moreover, this contention was rejected in Plastic Contact Lens Co. v. Guaranteed Contact Lenses, Inc., 283 F.Supp. 850 (S.D. N.Y. 1968) wherein the court stated (p. 851):

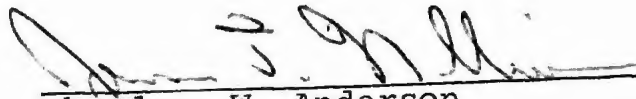
"It is a well settled principle of contract law that a breach by a licensor is not a defense in a suit for nonpayment of royalties where the licensee continued to manufacture and sell under the patent. (Citing cases.) Therefore, even assuming *arguendo* that the Security and Butterfield licenses resulted in the granting of more favorable terms to other licensees, without offering equal terms to the defendants in violation of the 'most favored licensee' clause of the defendants' licenses, this would not be a defense to the plaintiff's suit for non-payment of royalties." (Emphasis ours.)

Defendants' contention should be similarly rejected here.

CONCLUSION

The motion of defendants Bally and Midway for summary judgment in their favor on their second counterclaim for breach of contract should be denied for the dual reasons that (1) the motion raises a genuine issue of material part and (2) defendants are not entitled to judgment as a matter of law.

March 9, 1981



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CERTIFICATE OF SERVICE

It is hereby certified that the foregoing MEMORANDUM OF PLAINTIFFS IN OPPOSITION TO MOTION BY DEFENDANTS BALLY AND MIDWAY FOR SUMMARY JUDGMENT ON THEIR SECOND COUNTERCLAIM FOR BREACH OF CONTRACT was served by hand delivery of copies to:

George H. Gerstman, Esq.  
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Attorneys for Universal Research Laboratories, Inc.,  
Control Sales, Inc., Jewel Companies, Inc., Osco Drug, Inc.,  
Turn-Style, Inc., Bennett Brothers, Inc., Sears, Roebuck and  
Co., Montgomery Ward & Co., Inc., and APF Electronics, Inc.

and

Marshall A. Burmeister, Esq.  
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